

# Audit Report



ACCURACY OF THE FY 1999 ADDITIONS, DELETIONS,  
AND MODIFICATIONS TO THE MILITARY DEPARTMENTS'  
REAL PROPERTY DATABASES

Report No. D-2000-172

August 11, 2000

Office of the Inspector General  
Department of Defense

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### **Acronyms**

AAA	Army Audit Agency
ACES	Automated Civil Engineering System
AFAA	Air Force Audit Agency
CIP	Construction-in-Progress
DFAS	Defense Finance and Accounting Service
NAS	Naval Audit Service
NFADB	Navy Facility Assets Data Base
PP&E	Property, Plant, and Equipment
USACE	U.S. Army Corps of Engineers



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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August 11, 2000

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (MANPOWER  
AND RESERVE AFFAIRS)  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on the Accuracy of the FY 1999 Additions, Deletions, and  
Modifications to the Military Departments' Real Property Databases  
(Report No. D-2000-172)

We are providing this audit report for information and use. We performed the audit in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Ms. Barbara A. Sauls at (703) 604-9129 (DSN 664-9129) (bsauls@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## **Office of the Inspector General, DoD**

**Report No. D-2000-172**

(Project No. D1999FH-0091.001)

(formerly Project No. 9FH-2034.001)

**August 11, 2000**

### **Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases**

#### **Executive Summary**

**Introduction.** This report is the third in a series of reports on accounting for property, plant, and equipment, and was performed in support of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. DoD real property represents 46 percent, or \$91.7 billion, of the Federal Government's real property assets of \$198.8 billion. Therefore, accurate reporting of the real property portion of the property, plant, and equipment account is critical to achieving favorable audit opinions in the future. The Office of Management and Budget; the General Accounting Office; the Under Secretary of Defense (Comptroller); and the Inspector General, DoD, jointly developed DoD implementation strategies for accurate financial reporting of real property values. The Under Secretary of Defense (Comptroller) contracted with a certified public accounting firm to assist in the valuation of real property. The contractor derived a predicted value for historical cost and compared the predicted amount to the historical cost recorded in the Military Departments' real property databases. The objective was to establish a baseline historical cost value as of September 30, 1998, for each Military Department's real property database. The historical cost values were to be sustained by properly accounting for additions, deletions, and modifications, using adequate supporting documentation.

**Objectives.** Our overall objective was to determine whether the Military Departments' real property databases accurately reflected additions, deletions, and modifications for FY 1999, and whether completed real property projects were properly moved from the construction-in-progress account to the real property accounts. In addition, the Military Department audit agencies assessed internal controls, compliance with laws and regulations, and the management control program.

**Results.** The Military Departments' real property databases, which indicated an increase of \$7.3 billion in FY 1999, did not accurately reflect the changes made during FY 1999. As a result, the real property databases used to calculate the reported values of \$47.4 billion in real property and \$12.2 billion for construction-in-progress were unreliable, and understated the values reported in the Military Departments' and the DoD Agency-Wide financial statements for FY 1999 by at least \$1.1 billion. See the Finding section of this report for details. See Appendix A for details of the

management control program as it relates to the additions, deletions, and modifications to the real property databases and the accuracy of construction-in-progress.

**Summary of Recommendations.** The Military Department audit agencies made recommendations to their individual components on the internal control problems. We agree that these recommendations, if implemented, should improve the internal controls over the maintenance of the Military Departments' real property databases. However, we recommend that the U.S. Army Corps of Engineers and the Naval Facilities Engineering Command provide supporting documentation for the costs of the facilities, the dates the facilities were beneficially occupied, and the amount of construction-in-progress, by project, to be recorded in the financial records and financial statements. Although other systemic problems were identified, draft DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 4, "Accounting Policy and Procedures," chapter 6, "Property, Plant, and Equipment," January 1995, with changes through September 1999, provides the guidance needed to correct the problems. As a result, no additional recommendations are warranted.

**Management Comments.** The Commander, U.S. Army Corps of Engineers, concurred with all recommendations. The Commander stated that formal guidance would be issued to the field by July 31, 2000, to reemphasize the policies on providing supporting documentation for the costs of facilities and the amount of construction-in-progress, by project. The Assistant Secretary of the Navy (Financial Management and Comptroller) responded in coordination with the Commander, Naval Facilities Engineering Command, and concurred with all recommendations. The Assistant Secretary stated that the recommended action for providing documentation of costs was part of the established business process identified in the Navy Facility Assets Database Management System Procedures Manual, Naval Facilities Engineering Command P-78, September 30, 1999. The Assistant Secretary also stated that in accordance with a Memorandum of Agreement with the Air Force, the Naval Facilities Engineering Command provides the general ledger account balances for construction-in-progress to the Defense Finance and Accounting Service-Denver Center. Detailed information at the project level is available at the Defense Finance and Accounting-Denver and Cleveland Centers. In addition, Defense Finance and Accounting-Denver Center will receive a supplemental worksheet identifying the open projects as an attachment. The complete text of the comments is in the Management Comments section. The comments are summarized and discussed in the Finding section of the report.

**Audit Response.** Management comments were responsive. The Army, Navy, and Air Force provided comments on the internal control problems to the individual Military Department audit agencies; therefore comments on the draft of this report were not required.

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## Background

This audit was performed to support the requirements of Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994. DoD real property, reported in FY 1999 at \$91.7 billion, represents 46 of the Federal Government's property, plant, and equipment (PP&E) of \$198.8 billion. Therefore, accurate reporting of the real property portion of the PP&E account is critical to achieving the favorable opinion on the DoD Agency-Wide financial statements.

This report is the third in a series of reports on accounting for PP&E. The first report stated that real property databases for the Military Departments generally contained sufficiently accurate inventories of real property with individual reported values greater than \$100,000. The second report stated that the Defense Commissary Agency had improved personal property accountability; however, the personal property database as of October 1999 did not contain an accurate inventory of personal property.

**DoD Implementation Strategies for Real Property.** The Office of Management and Budget; the General Accounting Office; the Under Secretary of Defense (Comptroller); and the Inspector General, DoD, jointly developed DoD implementation strategies for accurate financial reporting. The first implementation strategy addressed the need to conduct tests for existence (verify that a record in the database has a corresponding item), completeness (verify that an observed item has a record in the database), and accuracy (check for supporting documentation) of the Military Departments' real property databases. The second implementation strategy addressed the issue of valuing general PP&E in DoD.

Specifically, if the Military Departments' databases did not contain cost data or did not have supporting documentation for the cost data entered on the property records, an appropriate methodology would need to be developed to estimate the Government's cost to acquire, construct, or improve real property. The Under Secretary of Defense (Comptroller) contracted with a certified public accounting firm to assist in the valuation of real property. The contractor derived a predicted value for historical cost and compared the predicted amount to the real property historical cost recorded in the Military Departments' real property databases. To do this, a statistical sample of assets was selected from the databases as of September 30, 1998. The objective was to establish a baseline historical cost value as of September 30, 1998, for each Military Department's real property database. The historical cost values were to be sustained by properly accounting for additions, deletions, and modifications, using adequate supporting documentation.

**Audit Work.** The Army Audit Agency (AAA), the Naval Audit Service (NAS), and the Air Force Audit Agency (AFAA) were tasked to review the databases for additions, deletions, and modifications for FY 1999 and to assess the sustainability of the baseline historical cost values for the September 30, 1998, databases. Each audit agency developed a plan to test the databases within its Military Department. We also performed audit work with the audit

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agencies. Each audit agency issued a report on the accuracy of the real property databases for additions, deletions, and modifications for its Military Department. This report summarizes the findings, conclusions, and recommendations for DoD.

## **Objectives**

Our overall objective was to determine whether the Military Departments' real property databases accurately reflected additions, deletions, and modifications during FY 1999. We also determined whether completed real property projects were properly moved from the construction-in-progress (CIP) account to the real property accounts. In addition, the Military Department audit agencies assessed internal controls, compliance with laws and regulations, and the management control program. See Appendix A for a discussion of the audit scope and methodology and the review of the management control program. See Appendix B for prior coverage related to the audit objectives.



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## **Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases**

The Military Departments' real property databases, which indicated an increase of \$7.3 billion in FY 1999, did not accurately reflect the changes made during FY 1999. The additions, deletions, and modifications to real property were not reflected in the real property databases because of poor internal controls and noncompliance with applicable regulations. Specifically:

- The real property databases were not always updated for additions, deletions, modifications, or capital improvements that occurred in FY 1999.
- The values for additions, deletions, modifications, or capital improvement transactions for FY 1999 were not reported accurately in the real property databases. In addition, a backlog in recording changes to the real property database resulted in an understatement of the real property value by approximately \$781 million on the FY 1999 Air Force General Fund financial statements.
- Completed projects were not transferred from the CIP account to the real property account in a timely manner and in the proper amount.
- The Defense Finance and Accounting Service (DFAS) Denver Center could not provide supporting documentation for \$1.8 billion of the \$2.8 billion reported in the CIP account on the FY 1999 Air Force General Fund financial statements.

As a result, the FY 1999 cost values added to the baseline historical cost values as of September 30, 1998, could not be supported. Consequently, the reported FY 1999 values of real property (\$47.4 billion) and CIP (\$12.2 billion) were unreliable and understated the values reported in the Military Departments' and DoD Agency-Wide financial statements for FY 1999 by at least \$1.1 billion. Unless internal controls are improved so that the databases accurately reflect all annual additions, deletions, and modifications, they will continue to be unreliable in the future.

### **General PP&E Laws and Regulations**

Draft DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 4, "Accounting Policy and Procedures," chapter 6, "Property, Plant, and Equipment," January 1995, with changes through September 1999, provides accounting guidance for PP&E. The Regulation

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states that assets shall be assigned a dollar value that is supported by source documents that reflect the cost of all transactions affecting the DoD Component's investment in the general PP&E assets. Supporting documentation may include purchase invoices; sales and procurement contracts; DD Form 1354, "Transfer and Acceptance of Military Real Property;" Engineer Form 3013, "Work Order/Completion Report;" construction contracts; and work orders. The regulation also emphasizes the need for supporting documentation to:

- account for all disposals and retirements;
- allow independent verification of the accuracy of accounting records and reconciliation with the subsidiary property records;
- identify and classify general PP&E on the financial statements;
- accumulate the costs of CIP and reconcile those costs with asset accounts when work is completed; and
- provide information to identify and account for capitalized improvements and upgrades.

DoD Regulation 7000.14-R also requires that physical inventories be conducted every 5 years. Army Regulation 405-45, "Real Estate-Inventory of Army Military Real Property," change no. 2, April 15, 1982, requires that a wall-to-wall inventory be completed within 3 years. If the inventories are completed as required and the accounting and property records are reconciled, the Military Departments will have more assurance that the real property databases are complete.

DoD Instruction 4165.14, "Inventory of Military Real Property," December 21, 1966, through change 4, August 25, 1977, states that the inventory is the basic source of information for reports on the status, cost, maintenance, and management of real property. The Instruction requires the Military Departments to prepare annual summary reports. In addition, the Military Departments must maintain an individual real property record for every item of real property that they own, lease, or otherwise acquire and control. The Instruction identifies the basic identifying information that the property records should contain, such as the date acquired, condition, year built, ownership, and cost of owned construction.

The Military Department auditors reviewed the changes to the real property databases made between September 1998 and September 1999 for both working capital and general fund activities. These changes occurred because facilities were added, demolished, or altered. The dollar changes represented the net value of added, demolished, and altered facilities. Table 1 provides the universe of the number of record changes and the associated total cost.

<b>Table 1. FY 1999 Net Value of Additions, Deletions, or Modifications to the Military Departments' Real Property Databases*</b>		
<b>Fund</b>	<b>Number of Records</b>	<b>Total Cost</b>
Army General Fund	1,911	\$ 433,326,234
Army Working Capital Fund	3,358	1,036,079,409
Navy General Fund	2,596	4,085,820,264
Navy Working Capital Fund	524	826,427,551
Air Force General Fund	7,828	890,882,781
Air Force Working Capital Fund	87	23,778,478
<b>Total</b>	<b>16,304</b>	<b>\$7,296,314,717</b>
*The time frame used to determine the record count and dollar changes from FY 1998 to FY 1999 differed for each Military Department audit agency. AAA and NAS compared September 30, 1998 to September 30, 1999. AFSA compared September 30, 1998 to March 30, 1999.		

Within DoD, each Military Department used one or more systems to record additions, deletions, or modifications to real property assets. The Army used a number of systems, including the Integrated Facilities System, to maintain the real property databases. The Navy used the Navy Facility Assets Data Base (NFADB). The Air Force used the Automated Civil Engineering System (ACES), a new system.

The real property databases were the source of information for the reported values of real property on the DoD Components' financial statements. For Army General Fund activities, the information in the Integrated Facilities System was uploaded to the Headquarters Executive Information System to populate the financial statements. For Army Working Capital Fund activities, the financial statement data were extracted from the Integrated Facilities System using a program with general ledger account codes. The results were sent directly to DFAS. For Navy General Fund activities, information flowed from the NFADB, and for Navy Working Capital Fund activities, information flowed from the local property system to the financial statements. In the Air Force, ACES was used to report real property values through the use of general ledger account codes. Errors in the real property databases affected the values reported in the financial statements.

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The financial statement assertions regarding existence, completeness, valuation, rights and obligations, and presentation and disclosure were affected by errors in the real property databases.

## **Updating the Real Property Databases for Additions, Deletions, and Modifications**

Internal controls were not adequate to ensure that the Military Departments' real property databases were updated accurately for additions, deletions, and modifications. As a result, the reported increase of \$7.3 billion to the real property databases for FY 1999 was unreliable and not supported.

**Army Results.** AAA reviewed the procedures and selected transactions for testing of additions, deletions, and modifications to the FY 1999 real property database. The auditors reviewed 62 percent (\$916.4 million) of the changes (\$1.5 billion) in the Army database for FY 1999 and 7.5 percent of the total reported dollar amount (\$12.3 billion) for Army real property as of September 30, 1999. For Army General Fund activities, the auditors reviewed \$399 million of changes at 23 locations. For Army Working Capital Fund activities, the auditors reviewed \$517.4 million of changes at 16 locations.

**Army General Fund Activities.** AAA determined that internal controls were not in place to record the changes to the database. For example, problems existed with cutoff procedures and backlogs of unrecorded properties. Specifically, in Army General Fund activities, \$104 million of projects completed in FY 1998 were recorded in FY 1999, and \$53 million of projects completed in FY 1999 were not recorded in FY 1999. Of the \$53 million, \$36.7 million were not recorded because real property officials did not record the values from DD Form 1354, "Transfer and Acceptance of Military Real Property."

**Army Working Capital Fund Activities.** Internal control testing showed backlogs of completed projects that had not been entered into the Integrated Facilities System. At least two installations, Rock Island Arsenal, Rock Island, Illinois, and Tobyhanna Army Depot, Tobyhanna, Pennsylvania, had backlogs of up to 6 years.

Army Regulation 405-45 requires that a wall-to-wall inventory be completed within 3 years. Most of the 16 locations visited had not completed the required inventories. The installations prepared Installation Status Reports annually, but did not complete 100 percent of the wall-to-wall inventories within 3 years. As a result of these problems, AAA concluded that internal controls were not adequate to ensure that the real property databases were updated accurately and promptly for additions, deletions, and modifications. In addition, the real property values for FY 1999 were misstated by an undeterminable amount.

**Navy Results.** The auditors reviewed 22 percent of the changes (\$1.1 billion of the \$4.9 billion) in the Navy database for FY 1999 and 6.4 percent (\$17 billion) of the total reported dollar value for Navy real property as of September 30, 1999.

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For Navy General Fund activities, the auditors reviewed \$863.4 million at nine sites. For Navy Working Capital Fund activities, the NAS reviewed \$234 million at 23 sites.

**Navy General Fund Activities.** The Navy did not always include the value of new buildings and capital improvements to existing facilities that were funded through the Defense Base Closure and Realignment Commission (the Commission). Naval Facilities Engineering Command personnel stated that they did not include new facilities constructed or renovated with Base Closure and Realignment funds in the NFADB because funds budgeted by the Navy were not used. However, Naval Facilities Engineering Command P-78, the "Navy Facility Assets Data Base Management System Procedures Manual," September 30, 1999, required that all Navy owned or leased buildings be reported in the NFADB. From the first round of base closures in FY 1990, the Commission earmarked about \$2.9 billion for the new construction or renovation of 321 facilities. If Naval Facilities Engineering Command continued with the policy of not adding Base Closure and Realignment-funded facilities in the NFADB, the value of real property would be understated. For example, the Navy would not include the new building for the Naval Sea Systems Command Headquarters at the Washington Navy Yard, Washington, D.C., valued at \$156.6 million, in the NFADB.

The Navy was also inconsistent in determining when a contract was considered complete for financial purposes and when property records should be adjusted. For example, personnel at the Naval Station, Newport, Rhode Island, stated that a contract was not closed until final payment was made. Regulations stated that the beneficial occupancy date should be used to record real property in the database.

**Navy Working Capital Fund Activities.** At Navy Working Capital Fund activities, the auditors found errors in 524 records, with a net value of \$826 million of additions and deletions. For example, the auditors reviewed 78 additions and found \$2.6 million in errors. For disposals, the NAS reviewed 179 disposals and found \$5.7 million in errors, and for 45 improvements reviewed, the auditors found \$16.1 million in errors. The main reason for the errors was the failure of personnel responsible for real property to update the NFADB and to notify the real property officials of additions, deletions, and modifications to the property. The Navy also had not performed inventories every 5 years, as required. NAS assessed the internal controls at 23 activities and found that 10 sites had effective controls and 13 sites had ineffective controls. NAS concluded that the real property databases were not accurate for additions, deletions, and modifications.

**Air Force Results.** The AFAA reviewed \$370 million of the \$914.6 million of changes in the real property database, which was 2 percent of the total amount (\$18.2 billion) reported for Air Force real property as of September 30, 1999. At Air Force Working Capital Fund activities, AFAA reviewed 62 facilities with modifications valued at \$353 million and 8 new facilities reported at \$6 million in the March 1999 database.

**Air Force General Fund Activities.** At 34 of the 99 Air Force General Fund activities visited, real property officials also had not conducted the

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required inventories. The real property officials attributed the lack of inventories to staff reductions and higher priority workload. In addition, ACES identified a facility number change as an addition of the new facility number and a deletion of the old facility number. This affected the accuracy of the real property databases, but not the financial statements. In addition, real property personnel had problems with cutoff procedures for year-end work. Real property assets totaling \$56 million were reported in the incorrect fiscal year. At least 511 facilities or projects valued at approximately \$781 million were not recorded in the real property database for FY 1999 and may not have been recorded in the FY 1999 financial statements because of a backlog in updating the real property database. Although the auditors could not determine a specific cause for this condition, real property officials attributed it to understaffing, pending litigation, and the implementation of ACES.

**Air Force Working Capital Fund Activities.** Of the Air Force Working Capital Fund facilities reviewed for modifications and additions, two facilities constructed before October 1, 1998, were not recorded in the real property records. These conditions occurred because Air Force Handbook 32-9007, "Managing Air Force Real Property," May 1, 1999, required real property officials to record adjustments after contract closure. As a result of its work, the AFMA concluded that the Air Force real property database was not accurate for additions, deletions, and modifications.

**Summary of Results.** Army real property officials did not follow Army Regulation 405-45, which requires that a wall-to-wall inventory be completed within 3 years. Navy and Air Force real property officials did not follow DoD Regulation 7000.14-R, which requires that all acquisitions of assets be recorded in databases and validated or reconciled by performing inventories every 5 years. In addition, Army and Air Force real property officials did not have adequate cutoff procedures for year-end work. Because of the omission of Base Closure and Realignment-funded facilities from the NFADB in the Navy and the omission of 511 facilities from the real property database in the Air Force, addition transactions were erroneously reported. The Navy did not use the beneficial occupancy date of the property to update the property records. These discrepancies affected the total year-end value of the database used to calculate the value of real property reported on the FY 1999 financial statements. Because of the lack of effective internal controls, the Military Departments could not sustain the historical cost values as of September 30, 1998, for their real property databases. In addition, all assertions on the financial statements were negatively affected.

## **Reporting the Value of Changes in the Real Property Databases**

Internal controls were not adequate to ensure that the baseline historical cost values as of September 30, 1998, could be sustained for the Military Departments. Real property officials did not follow the Under Secretary of Defense (Comptroller) guidance on the documentation required to support the asset cost, the capitalization threshold to be used for financially reporting an



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asset,\* and the requirement for reconciliations between the accounting records and the subsidiary property records. In addition, problems existed with the proper recognition of real property by the working capital fund and general fund activities. As a result, the FY 1999 cost values added to the baseline historical cost values as of September 30, 1998, could not be supported and provided inaccurate amounts when used to populate the real property account on the financial statements.

**Army Results.** AAA found that because of the Integrated Facilities System, Army Working Capital Fund activities did not follow the guidance for capitalizing real property assets. Instead of capitalizing only changes that met the threshold, all changes were capitalized. Because the Integrated Facilities System was not a financial system, the cost of a project was added to the cost of the associated facility, which increased the total cost of a facility and caused it to be included in the financial statements. This overstated the real property values at Army Working Capital Fund activities. Supporting documentation was available for changes made in FY 1999; however, the activities did not have documentation to support the total value of real property assets. Consequently, the dollar values reported in the real property databases and on the financial statements could not be substantiated.

**Navy Results.** At Navy Working Capital Fund activities, real property officials did not follow the capitalization threshold of the Under Secretary of Defense (Comptroller). In addition to problems with the accuracy of the databases, the Navy Working Capital Fund activities did not populate the NFADB for FY 1999. At the Public Works Center, San Diego, California, 68 facilities were not added to the database, thus omitting costs of \$2.2 million. Real property personnel also did not reconcile the NFADB to the local property system because of lack of guidance, personnel, and training. At the Weapons Support Facility, Seal Beach, California, no support was available for the cost of 75 facilities with a reported value of \$7.6 million. In addition, costs were not based on historical values. Excluding land, real property assets were revalued using replacement cost, overstating assets by \$4.8 million. Consequently, the dollar values reported in the real property databases and on the financial statements could not be substantiated.

**Air Force Results.** The Air Force is converting from the Interim Work Information Management System to ACES. Within ACES, the real property module is operational. ACES was designed to be the subsidiary ledger for the amounts reported on the financial statements for real property, CIP, and depreciation. A command or tenant code must be used to ensure that real property is reported on the Air Force Working Capital Fund or General Fund financial statements, whichever is correct. During the audit work, AFAA identified errors in command and tenant codes. Without proper coding, incorrect amounts for real property will be reported on the financial statements. In addition, ACES had other internal control weaknesses that affected the real property database and the financial statements.

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\* We have not accepted the Under Secretary of Defense (Comptroller) capitalization threshold of \$100,000 for real property. However, DoD would have difficulty sustaining the baseline, regardless of the threshold.

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**Air Force General Fund Activities.** Because at least 15 locations, mostly contractor-operated plants, had not converted to ACES, Air Force personnel had to report property at these locations manually. During FY 1999, the Air Force overstated the acquisition value of buildings and other structures by \$3.4 billion on the financial statements.

In addition, real property personnel did not always comply with the regulation for capitalizing facilities at the time that they were placed in service. For example, at 46 of the 99 locations visited, projects valued at approximately \$781 million were not recorded in the real property records and may not have been recorded in the FY 1999 financial statements. The implementation of ACES caused part of this problem because real property personnel had not been trained in inputting data into ACES. In the past, when using the Interim Work Information Management System, the projects valued at \$781 million would first have been part of the CIP account. After the facilities were placed in service, real property officials would have transferred the completed facilities from the CIP account to the real property database. However, when ACES was implemented, Air Force management did not transfer the unprocessed minor construction (CIP) from the old system to ACES. Therefore, the unprocessed amounts were not in the real property account or the CIP account. As a result, the dollar values reported in the real property databases and on the financial statements could not be substantiated. According to AFMAA, ACES did not capture estimated costs totaling approximately \$277 million in the general ledger account, resulting in an understatement on the financial statements.

**Air Force Working Capital Fund Activities.** The Air Force Working Capital Fund reported real property values on its own financial statements. The AFMAA found that the real property assets were miscoded in the database, which affected the reported dollar value of real property on the FY 1999 Air Force Working Capital Fund financial statements. The March 31, 1999, real property database included 130 Air Force Working Capital Fund facilities, with a net value of \$70.9 million, that were improperly coded as Air Force General Fund facilities. In addition, 10 Air Force General Fund facilities, with a net value of \$4.8 million, were improperly coded as Air Force Working Capital Fund activities. When notified of the problem, real property officials corrected the database.

At Air Force Working Capital Fund activities, real property officials did not accurately record cost information for 56 of 62 modified facilities and all 8 new facilities added to the real property records. The officials also did not comply with the capitalization threshold for 13 facilities, and in 31 instances, they made unsupported adjustments to the real property asset values. This condition occurred because the Air Force real property system lacked the application controls to correctly capitalize costs, and manual oversight of the controls was ineffective.

**Summary of Results.** To sustain the historical cost values as of September 30, 1998, additions, deletions, and modifications made in FY 1999 and subsequent years had to be accounted for properly, using adequate supporting documentation. The Military Departments did not obtain and maintain documentation to support cost values, did not capitalize assets based on the current capitalization threshold, did not reconcile the accounting records with



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the property records, and did not properly recognize the assets of working capital fund and general fund activities. These problems prevented the sustainability of the values reported on the real property databases and the substantiation of the values reported on the Military Departments' financial statements. In addition, the lack of supporting documentation for asset costs affected all assertions, and the improper capitalization of assets affected valuation, presentation, and disclosure.

## **Supporting the Construction-in-Progress Account**

Internal controls were not adequate to ensure that completed real property projects were properly transferred from the CIP account to the real property accounts promptly and in the proper amount. The Army had backlogs of completed projects because supporting documentation had not been received from the U.S. Army Corps of Engineers (USACE). In the Navy, the resident officer in charge of construction did not inform the real property officials when projects were completed. The Air Force could not reconcile the value for the CIP account with ongoing projects because the DFAS Denver Center could not provide adequate supporting documentation for CIP reported in the financial statements. As a result, the real property databases were incomplete, and properties were added to the database in the incorrect year. In addition, the CIP account was unsupported and may have been overstated.

**Support for Completed Projects.** According to AAA, the DD Form 1354, "Transfer and Acceptance of Military Real Property," is used to record changes, additions, or deletions of real property within DoD. The form is used to transfer completed new work and to transfer and accept construction on existing structures. It is also used for miscellaneous actions involving real property. Real property officials at installations use this form as a basis for recording changes to real property in the databases that are the sources of information for the financial statements.

Although USACE issued guidance on the preparation of transfer documents, districts did not consistently implement this guidance. DD Forms 1354 were not prepared in a timely manner because districts had different time frames for transferring completed projects. DD Forms 1354 also were not prepared consistently; the same cost types were not reported in each phase of completion. As a result, completed CIP may have been incorrectly classified or may not have been reported in the financial statements.

The full costs of a completed project could not be easily reported. Project managers were responsible for ensuring that the final project costs reported to the customer included both design and construction costs. However, personnel in the USACE Military Programs Office stated that engineering and design work occurred several years before construction. Projects did not have a unique identifier in the accounting system that could link design and engineering costs for several fiscal years. As a result, project managers were required to manually track the design costs of each construction project.

In the Navy, capital improvements were recorded in the database before facilities were ready for occupancy. In addition, the Navy had no procedures

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for removing completed projects from the CIP account. Both USACE and the Naval Facilities Engineering Command should promptly provide the Military Departments with documentation to support the cost of facilities. The cost changes should be documented on DD Form 1354 or a similar document.

**Support for the CIP Account.** USACE provided the DFAS Denver Center with an aggregate number (\$1.8 billion) for the CIP account in the Air Force. USACE did not provide the supporting documentation needed to properly determine the amount of CIP by specific project.

Personnel at the DFAS Denver Center could not provide adequate supporting documentation for CIP valued at \$1.8 billion on the FY 1999 Air Force General Fund financial statements. This condition occurred because the DFAS Denver Center did not require USACE or the Naval Facilities Engineering Command to provide adequate supporting documentation. Both activities provided memorandums stating the appropriation balances. As a result, the Air Force could not determine whether its real property databases accurately captured completed projects instead of projects under construction. The Air Force also could not validate the amounts reported by DFAS for structures, facilities, and utilities instead of CIP. AAA and NAS did not validate the CIP account balance for the Army and Navy FY 1999 financial statements. As a result, auditors could not determine whether the DFAS Centers that prepared the financial statements for the Army and the Navy had adequate supporting documentation for the CIP account balance. To prevent problems with supporting documentation, both USACE and the Naval Facilities Engineering Command should provide documentation for the CIP account for each project to the DFAS Center responsible for the financial statements for the Military Department.

The value of CIP may have been overstated by completed projects that should have been transferred to the real property account. Documentation needed to support the transfer was not always available. In addition, the Military Departments were not consistent in defining when completed projects should be recorded in the real property databases. Some activities expected the work, including all financial aspects, to be completed; other activities, following regulations, accepted the beneficial occupancy date. Both USACE and the Naval Facilities Engineering Command needed to provide supporting documentation for each project for the CIP account. All financial statement assertions were affected.

## Summary

Although the \$7.3 billion of changes made to the real property databases for the Military Departments were much less than the \$59.6 billion overall value of the database, the audit work showed that the internal controls necessary to sustain a baseline value for real property were not in place or were not implemented. Despite the amount of work done in FY 1999 on the databases, facilities were omitted, supporting documentation for costs was not obtained or maintained, and completed projects were not moved from the CIP account to the real property account. The values reported in the Military Departments' and DoD Agency-Wide financial statements for FY 1999 was understated by at least \$1.1 billion or 15.1 percent of the \$7.3 billion. These internal control

weaknesses contributed to the inability of DoD to achieve a favorable opinion on the FY 1999 DoD Agency-Wide financial statements. More important, the ability of DoD to sustain an auditable value for the PP&E account is questionable. Table 2 presents the effects of these internal control weaknesses on the financial statement assertions.

<b>Table 2. Effects of Internal Control Weaknesses on the Financial Statement Assertions</b>					
<b>Internal Control Weaknesses</b>	<b>Existence</b>	<b>Completeness</b>	<b>Valuation</b>	<b>Rights and Obligations</b>	<b>Presentation and Disclosure</b>
Inventories not performed	√	√	√	√	√
Assets capitalized below threshold			√		√
Transactions not recorded promptly	√	√	√		
Property value errors			√		√
Supporting documentation not available	√	√	√	√	√

For example, if the required inventories are not performed, property may be incorrectly omitted from or included in the databases, which can affect all five assertions. Failure to properly capitalize assets affects their valuation, presentation, and disclosure. When transactions are not recorded promptly, existence, completeness, and valuation are affected. The lack of supporting documentation for cost, existence, or ownership affects all five assertions.

The Military Department audit agencies made recommendations to their components that should, if implemented, improve the internal controls for maintaining the real property databases. As a result, we did not make additional recommendations to the Military Departments. We made recommendations to USACE and the Naval Facilities Engineering Command that affected DoD as a whole.

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## **Management Comments on the Finding and Audit Response**

**U.S. Army Corps of Engineers Comments.** The Commander, U.S. Army Corps of Engineers, stated that although USACE had issued guidance on preparing transfer documents, districts did not consistently implement the guidance. Since DD Form 1354s were not prepared in a timely manner, completed CIP may have been incorrectly classified or may not have been reported in the financial statements. In addition, the Commander noted that USACE had provided comments to an Army Audit Agency draft report that discussed findings on CIP and that those findings and recommendations were apparently used as the basis for the Inspector General, DoD, report.

The Commander also stated that specific guidance had been issued during the past several years on this issue. Most recently, the Resource Management and Military Programs Directorates of the Army Corps of Engineers issued an information paper addressing the transferring process. According to the Commander, this guidance addressed the recommendations in the draft Army Audit Agency and Inspector General, DoD, reports.

**Audit Response.** We recommended that USACE prepare the DD Form 1354 in a timely manner because the problem with timeliness affected the reporting of CIP in the financial statements for both the Army and the Air Force. The Army Audit Agency draft report supported the fact that the recommendation needed to be addressed at the Inspector General, DoD, level. The recently issued guidance will be evaluated for proper action on the recommendation.

## **Recommendations and Management Comments**

**We recommend that the Commander, U.S. Army Corps of Engineers, and the Commander, Naval Facilities Engineering Command:**

**1. Provide documentation to support the cost of facilities to the Military Departments as of the beneficial occupancy date. All cost changes should be documented on DD Form 1354, "Transfer and Acceptance of Military Real Property," or a similar document.**

**U.S. Army Corps of Engineers Comments.** The Commander concurred and stated that formal guidance will be issued no later than July 31, 2000, to reemphasize the transfer policy.

**Assistant Secretary of the Navy (Financial Management and Comptroller) Comments.** The Assistant Secretary concurred, and stated that the recommended action was part of the established business process identified in the "Navy Facility Assets Database Management System Procedures Manual, NAVFAC P-78," September 30, 1999. In addition, the Assistant Secretary noted that the finding was addressed in a Commander, Naval Facilities Engineering Command, letter dated August 6, 1999, along with the procedures manual. The letter identified the type of financial documents needed for acquisition and disposal of construction. Finally, the Assistant Secretary commented that the Under Secretary of Defense (Comptroller) recent guidance

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on property, plant, and equipment did not use the term "beneficial occupancy date." Consequently, the Inspector General, DoD, should coordinate with the Under Secretary to incorporate the term in the DoD Financial Management Regulation, Volume 4.

**2. Provide timely supporting documentation for the construction-in-progress account for each project to the Defense Finance and Accounting Service Centers responsible for the financial statements for the Military Departments.**

**U.S. Army Corps of Engineers Comments.** The Commander concurred, and stated that formal guidance will be issued no later than July 31, 2000, to reemphasize the policy for providing timely supporting documentation for the construction-in-progress account.

**Assistant Secretary of the Navy (Financial Management and Comptroller) Comments.** The Assistant Secretary concurred, and stated that in accordance with a memorandum of agreement with the Air Force, dated September 20, 1994, the Naval Facilities Engineering Command provided an account balance for construction-in-progress to the Defense Finance and Accounting Service-Denver Center. Detailed information at the project level is available at the Cleveland and Denver Centers as part of the detailed accounting information processed through the official accounting systems. For future reporting to the Denver Center, the command will attach a letter report with a supplemental worksheet identifying the open projects listed on the Air Force Status of Allocations Data Base Transfer report that supports the construction-in-progress account by project.

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## Appendix A. Audit Process

### Scope and Methodology

**Work Performed.** In this financial-related audit, the Military Department audit agencies evaluated the internal controls associated with maintaining the real property databases in the Military Departments. AAA used the real property databases from the Headquarters Executive Information System as of September 30, 1998; June 30, 1999; and September 30, 1999, to calculate the changes for Army General Fund activities. AAA applied certain business rules that excluded certain facilities, including Army Working Capital Fund activities, to arrive at the changes made during FY 1999. AAA auditors at the Army Working Capital Fund activities used the Integrated Facilities System to calculate the changes in FY 1999. NAS used the September 30, 1998, real property database in the Navy Facility Assets Data Base, and AFAA used the September 30, 1999, real property database in the Automated Civil Engineering System. The Military Department auditors performed their audit work with assistance from the General Accounting Office and the Inspector General, DoD, at real property offices at the military installations. They interviewed real property officials to verify the changes made to the databases for additions, deletions, modifications, capital improvements, and CIP. The auditors also reviewed the real property records in the databases. As of September 30, 1999, the real property value reported on the financial statements for both general and working capital funds was \$59.6 billion. The Army reported \$16.6 billion, the Navy reported \$22 billion, and the Air Force reported \$21 billion. Real property included facilities, structures, and leasehold improvements.

**DoD-Wide Corporate-Level Government Performance and Results Act Goals.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to the following goal, subordinate performance goal, and performance measures.

**FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-2)

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. (01-DoD-2.5)
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and financial systems. (01-DoD-2.5.1)
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. (01-DoD-2.5.2)

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**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

**Financial Management Area. Objective:** Strengthen internal controls.  
**Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Financial Management high-risk area.

**Use of Computer-Processed Data.** To achieve the audit objectives, the Military Department auditors relied extensively on computer-processed data in several systems. For the Army, AAA used the Headquarters Executive Information System and the Integrated Facilities System. NAS used the Navy Facility Assets Data, and AFAA used the Automated Civil Engineering System for the Air Force. The Military Department auditors did not find the systems reliable. The unreliability of these systems supported the finding that the real property databases were unreliable.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from October through February 2000, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

**Contacts During the Audit.** We contacted and visited individuals and organizations within DoD. Further details are available upon request.

## **Management Control Program**

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive strategy for management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of the Military Departments' management controls over accountability for real property and the maintenance of databases. Specifically, we reviewed the management controls over the addition and deletion of real property and the recording of modifications and CIP. We also reviewed the Military Departments' FY 1999 Annual Statements of Assurance. We reviewed management's self-evaluation applicable to those controls.

**Adequacy of Management Controls.** We identified a material management control weakness for the Military Departments and DoD as defined by DoD Directive 5010.38. The Military Departments' management controls for the addition and deletion of real property and the recording of modifications and



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CIP in the database were not adequate. The controls did not ensure that the FY 1999 cost values added to the baseline historical cost values as of September 30, 1998, could be supported, and that the reported FY 1999 values of real property (\$47.4 billion) and CIP (\$12.2 billion) were reliable. Recommendations 1 and 2 in this report and the recommendations made by the Military Department auditors, if implemented, will improve the maintenance of the real property databases and the accuracy of the CIP account. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Under Secretary of Defense (Comptroller) and the Departments of the Army, Navy, and Air Force.

**Adequacy of Management's Self-Evaluation.** The Army identified the unreliability of the financial reporting of real property. The Army recognized the Defense Property Accountability System as a means of improving financial reporting. The implementation of the Defense Property Accountability System is incomplete and cannot be fully evaluated. However, the Army did not identify the incompleteness of the real property databases or the inaccuracy of the CIP account as a material management control weakness. Specifically, the Army stated that accountability was not a problem. The Navy did not identify a weakness in recording the acquisition and disposition of real property. The Air Force identified the inaccuracies in the CIP account, not accountability for real property, as a material weakness. The inadequacy of the Military Departments' self-evaluations will result in continuing problems in property accountability and the accuracy of the CIP account.



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## **Appendix B. Prior Coverage**

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2000-078, "Reliability of the Defense Commissary Agency Personal Property Database," February 18, 2000.

Inspector General, DoD, Report No. 99-243, "Reliability of the Military Departments' Real Property Databases for Existence and Completeness," August 27, 1999.

Inspector General, DoD, Report No. 98-135, "Implementation of the Defense Property Accountability System," May 18, 1998.

Inspector General, DoD, Report No. 98-097, "Defense Commissary Agency Financial Reporting of Property, Plant, and Equipment," March 27, 1998.

Inspector General, DoD, Report No. 98-008, "Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment," October 9, 1997.

Inspector General, DoD, Report No. 97-148, "Defense Logistics Agency Actions to Improve Property, Plant, and Equipment Financial Reporting," May 29, 1997.

Inspector General, DoD, Report No. 96-212, "Capitalization of the Department of Defense General Property, Plant, and Equipment," August 19, 1996.

### **Army Audit Agency**

Army Audit Agency Report No. AA97-149, "Army's Principal Financial Statements for Fiscal Years 1996 and 1995, Financial Reporting of Real Property, Natural Resources, and Leases," September 30, 1997.

### **Naval Audit Service**

Naval Audit Service Report No. 051-97, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Property, Plant, and Equipment, Net," September 25, 1997.

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## **Air Force Audit Agency**

Air Force Audit Agency Project No. 96068011, "Air Force Defense Business Operations Fund Cash Management and Property, Plant, and Equipment, Fiscal Year 1996," July 30, 1997.

Air Force Audit Agency Project No. 95053002, "Property, Plant, and Equipment, Fiscal Year 1995 Air Force Consolidated Financial Statements," June 13, 1996.

Air Force Audit Agency Project No. 94053032, "Review of Property, Plant, and Equipment, Fiscal Year 1994 Air Force Consolidated Financial Statements," August 10, 1995.

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director for Accounting Policy

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
Commander, U.S. Army Corps of Engineers

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Commander, Naval Facilities Engineering Command  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center  
Director, Defense Finance and Accounting Service Columbus Center  
Director, Defense Finance and Accounting Service Denver Center  
Director, Defense Finance and Accounting Service Indianapolis Center

### **Non-Defense Federal Organizations**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

# U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY  
U.S. Army Corps of Engineers  
WASHINGTON, D.C. 20314-1000

REPLY TO  
ATTENTION OF:

CEIR (36-5c)

13 June 2000

MEMORANDUM FOR U.S. INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE, ATTN: F.JAY LANE, DIRECTOR,  
FINANCE AND ACCOUNTING DIRECTORATE,  
400 ARMY NAVY DRIVE, ARLINGTON, VA  
22202-2885

SUBJECT: DODIG Audit on the Accuracy of the FY 1999  
Additions, Deletions, and Modifications to the Military  
Departments' Real Property Databases (Project No. D1999FH-  
0091.001)

1. This is the Command reply to the subject report. The  
Command comments reflect our official command positions  
that were previously provided the U.S. Army Audit Agency  
for their similar report.

2. The point of contact for this action is Mr. John B.  
Byrne who can be reached at 202-272-1987.

FOR THE COMMANDER

  
JOHN E. TEMPLETON  
Chief, Internal Review

COMMENTS ON DRAFT DODIG AUDIT REPORT  
PROJECT NO. D1999FH-0091.001

SUMMARY OF RESULTS:

Although USACE issued guidance on the preparation of transfer documents, districts did not consistently implement this guidance. DD Forms 1354 were not prepared in a timely manner because districts had different time frames for transferring completed projects. DD Forms 1354 also were not prepared consistently and the same cost types were not reported in each phase of completion. As a result, completed CIP may have been incorrectly classified or may not have been reported in the financial statements.

ADDITIONAL FACTS:

On 24 March 2000 USACE provided a Command reply to the USAAA Draft Report of Army's General Fund Financial Statements for FY 1999, Construction-in-Progress. The USAAA findings and recommendations were apparently used as the basis for the DODIG report.

Specific guidance, as needed, has been provided to the field on this issue during the past several years. As recently as 21 December 1999 an information paper addressing the transfer of real property/DD 1354 process was prepared by the Resource Management and Military Programs Directorates that was provided to our Major Subordinate Commands and district offices. This information paper provided consolidated guidance on the issues addressed in this report and the recommendations in the draft USAAA report referred to above.

1. Recommendations:

a. Provide documentation to support the cost of facilities to the Military Departments as of the beneficial occupancy date. All cost changes should be documented on DD Form 1354, "Transfer and Acceptance of Military Real Property," or a similar document.

USACE Response: Concur. HQUSACE will issue formal guidance to the field to reemphasize our policy no later than 31 July 2000.

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b. Provide timely supporting documentation for the construction-in-progress account for each project to the Defense Finance and Accounting Service Centers responsible for the financial statements for the Military Departments.

USACE Response: Concur. HQUSACE will issue formal guidance to the field to reemphasize our policy no later than 31 July 2000.

-2-

## Assistant Secretary of the Navy (Financial Management and Comptroller) Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20350-1000

JUN 27 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON THE ACCURACY OF THE FISCAL YEAR  
1999 ADDITIONS, DELETIONS, AND MODIFICATIONS TO THE  
MILITARY DEPARTMENTS' REAL PROPERTY DATABASES (PROJECT  
NO. D1999FH-0091.001) (FORMERLY 9FH-2034.001)

Ref: (a) DODIG memo of 5 May 00

Encl: (1) DON Comments on DODIG Draft Report D1999FH-0091.001

By reference (a), you requested comments regarding the subject audit. Comments were prepared in coordination with the Commander, Naval Facilities Engineering Command (COMNAVFACENGCOM) and are provided in enclosure (1).

Our point of contact is Mr. Phillip Graham who may be reached at (202) 685-6729.

GLADYS J. COMMONS  
Principal Deputy  
Assistant Secretary of the Navy  
(Financial Management and Comptroller)

Copy to:  
COMNAVFACENGCOM  
NAVINGEN  
NAVAUDSVS



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Subj: DRAFT AUDIT REPORT ON THE ACCURACY OF THE FISCAL YEAR  
1999 ADDITIONS, DELETIONS, AND MODIFICATIONS TO THE  
MILITARY DEPARTMENTS' REAL PROPERTY DATABASES (PROJECT  
NO. D1999FH-0091.001) (FORMERLY 9FH-2034.001)

Blind copy to:  
FMO-Linda Tread  
FMO-Ed Johnson  
FMO-Warren Pfeiffer

**DEPARTMENT OF THE NAVY COMMENTS  
ON  
DODIG DRAFT AUDIT REPORT  
"ACCURACY OF THE FY 1999 ADDITIONS, DELETIONS, AND MODIFICATIONS  
TO THE MILITARY DEPARTMENTS'  
REAL PROPERTY DATABASES"  
(Project No. D1999FH-0091.001)  
(formerly Project No. 9FH-2034.001)**

**Finding: Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases**

**Recommendation 1:** We recommend that the Commander, U.S. Army Corps of Engineers, and the Commander, Naval Facilities Engineering Command (COMNAVFACENGCOM) provide documentation to support the cost of facilities to the Military Departments as of the beneficial occupancy date. All cost changes should be documented on DD Form 1354, "Transfer and Acceptance of Military Real Property," or a similar document.

**Response:** Concur. The recommended action is part of the established business process identified in the Navy Facility Assets Database (NFADB) Management System Procedures Manual, NAVFAC P-78, 30 September 1999. To assure quality financial data, the importance of reporting such data and keeping copies of financial documents was addressed in a COMNAVFACENGCOM letter of 6 August 1999 that was endorsed by the General Accounting Office (GAO). In that letter COMNAVFACENGCOM identified the type of supporting financial documents needed for acquisition and disposal of construction, both major and minor construction efforts; work request and job orders; various disposal type actions and leases. We consider the findings to have been addressed per the COMNAVFACENGCOM letter of 6 August 1999 and the business processes noted in the NAVFAC P-78; therefore, no further action is warranted. Please note that recent guidance issued by the Under Secretary of Defense (USD(C)) on Plant, Property and Equipment has not used the term "beneficial occupancy date." The Office of the Assistant Inspector General for Auditing, Department of Defense should coordinate with USD(C) to incorporate the term "beneficial occupancy date" in the Department of Defense Financial Management Regulation, Volume 4.

**Recommendation 2:** We recommend that the Commander, U.S. Army Corps of Engineers, and the Commander, Naval Facilities Engineering Command provide timely supporting documentation for the construction-in-progress account for each project to the Defense Finance and Accounting Service Centers responsible for the financial statements for the Military departments.

**ENCLOSURE(1)**

**Response:** Concur. COMNAVFACENGCOM's Facilities Information System (FIS 2.0) general ledger structure accumulates and tracks costs and expenses of construction projects at the transaction level. In accordance with Memorandum of Agreement for Annual Submission of Air Force Construction-in-Progress (CIP) Report of 20 September 1994, COMNAVFACENGCOM provides the general ledger account balances for CIP (GL 1720) that are reported to Defense Finance and Accounting Service - Denver Center (DFAS-DE) for the preparation of the annual financial statements. This Memorandum of Agreement was developed in direct response to the Department of Defense Inspector General's (DoDIG) Final Report of Audit of the Air Force Fiscal Year (FY) 1992 Financial Statements (Project 2FD-2006), Finding D, Recommendation 1. Detailed information at the project level on the status of ongoing/completed construction projects is available at the DFAS - Cleveland Center (CL) and DFAS-DE level as part of the detailed accounting information processed through official DFAS accounting systems. For future reporting to DFAS-DE beginning FY 2000, COMNAVFACENGCOM will provide as an attachment to the letter report, a supplemental worksheet identifying the open projects listed on the Air Force Status of Allocations Data Base Transfer report that support the general ledger CIP account by project.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title:** Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases

**B. DATE Report Downloaded From the Internet:** 08/29/00

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level:** Unclassified

**E. Distribution Statement A:** Approved for Public Release

**F. The foregoing information was compiled and provided by:**  
DTIC-OCA, Initials: \_\_VM\_\_ Preparation Date 08/29/00

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